I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James DeMetro. My business address is 100 Weybosset Street, Providence, Rhode Island 02903.

Q. By whom are you employed, and in what capacity?

A. I am Executive Vice President of ProvEnergy and its principal subsidiary, The Providence Gas Company ("ProvGas"). I have been employed by Providence Energy Corporation ("ProvEnergy") since 1992. I am responsible for the overall management and operations of ProvGas and North Attleboro Gas Company.

Q. Have you previously testified in proceedings before the Department?

A. I have testified in regulatory proceedings before the Rhode Island Public Utilities Commission, the New York State Public Service Commission and the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is: (i) to describe the background of the North Attleboro Gas Company ("North Attleboro") and the rationale for the merger of ProvEnergy and its operating subsidiary, North Attleboro, with Southern Union Company ("Southern Union"); (ii) to provide an overview of the process undertaken to effect that merger; (iii) to explain the benefits of the merger for North Attleboro's customers; and (iv) to describe the service-quality program proposed herein to ensure that service-quality levels are maintained after the merger.

Q. Please provide a brief description of North Attleboro Gas Company and its parent company, ProvEnergy.

A. North Attleboro is a small local gas distribution company ("LDC"), regulated by the Department of Telecommunications and Energy (the "Department") as a "gas company," pursuant to G.L. c. 164, § 1. North Attleboro was organized in 1930 under the laws of the Commonwealth of Massachusetts and currently serves approximately 3,800 customers. ProvEnergy is a holding company formed in 1981 whose regulated susidiaries are ProvGas and North Attleboro. ProvEnergy's principal unregulated susidiaries are ProvEnergy Services, a retail energy marketing company, and ProvEnergy Fuels, a retail full service oil company.

II. THE DECISION-MAKING PROCESS OF PROVENERGY AND ITS AFFILIATE, NORTH ATTLEBORO, TO ENTER INTO THIS MERGER

Q. Please explain why ProvEnergy and its affiliate, North Attleboro, decided to pursue a merger at this time.

A. Over the past several years, ProvEnergy's Board of Directors (the "Board") and the management of ProvEnergy have closely followed industry restructuring developments. Deregulation of the gas industry, which first started at the national level with the unbundling of interstate natural gas pipeline services, has continued at the state level with unbundling initiatives being promoted by both LDCs and regulators. With this restructuring of the utility industry, the attractiveness of LDCs has grown significantly from two perspectives. Strategically, the widely-held view of convergence in the energy industry has made local utilities an extremely valuable part of any retail energy company's portfolio. Traditional regional gas and electric utilities are repositioning themselves as national and even international retailers of distributed power and energy services. At the same time, restructuring initiatives are requiring companies to make significant investments in technology, which has motivated companies to reach across industry lines and geographic borders in an effort to grow their customer base and to capture additional economies of scale. New England LDCs have been targeted for acquisition for a number of additional reasons, including the area's relatively low saturation of natural gas, the introduction of new gas transmission lines into the region, and the large number of small LDCs in the region.

As ProvEnergy evaluated its position in relation to these industry trends, it recognized that three primary factors underlie recent mergers and acquisitions in the gas industry: (1) the need to create economies of scale and/or scope in order to maintain competitiveness; (2) the recognition that technology investments are key to achieving efficiency gains, but require a larger capital base; and (3) convergence in the energy industry was causing a high value to be placed on local utilities by larger, more diverse energy companies looking to become major players in the utility industry. As a result of this analysis, the Board, in conjunction with ProvEnergy management, realized that they needed to determine how best to achieve the ProvEnergy's objectives of providing safe, reliable and least-cost energy services to customers, while taking the opportunities available to offer the greatest prospect of investment return to its shareholders. The Board concluded that significant benefits could result from a business combination with a larger organization, and therefore, such a combination would be in the best overall interest of ProvEnergy's customers, shareholders and employees.

Q. What were ProvEnergy's criteria in identifying a merger partner?

A. ProvEnergy's Board has kept abreast of these industry developments and has continually reassesed the option of merging with other organizations in response to significant industry developments. Ultimately, as the industry continued to consolidate and the market value of LDCs continued to increase, it became clear that the ProvEnergy's objectives would best be achieved by merging with a larger entity with access to greater resources. Accordingly, ProvEnergy charted a course seeking a strategic alliance that would meet certain criteria. Specifically, ProvEnergy sought a larger financial partner with resources to support continued growth as a broad-based energy supplier throughout New England with a shared commitment to serve customers safely and reliably.

On November 15, 1999, ProvEnergy reached agreement with Southern Union based on the assessment that a merger with Southern Union was the optimal course for achieving our principal objectives. In reaching this decision, ProvEnergy's Board took into account the likelihood that Southern Union would be in the best position to offer the highest value for our shareholders while providing benefits for customers and enhanced opportunities for employees.

Q. What benefits does ProvEnergy expect will result from this merger?

A. As noted above, in pursuing a business combination with Southern Union, ProvEnergy sought to maximize the value that would flow from such a transaction for the benefit of customers, employees and shareholders. This merger meets that objective. First and foremost, the merger will enable us to deliver benefits to the customers of North Attleboro that would likely not be realized without the merger. The merger will provide ProvEnergy with access to resources that will enable us to be more competitive and to continue to honor our commitments to our customers, the communities we serve and our employees. This merger offers the potential for increased efficiency and improved customer service for North Attleboro's customers. In addition, Southern Union has agreed to operate ProvEnergy as the headquarters for its New England operations, which will enable us to continue serving our market with the same skilled and dedicated people who know and understand local needs. Moreover, ProvEnergy believes that a larger, more diversified company will benefit its employees over the long term by providing them with greater opportunities and a more dynamic working environment. ProvEnergy's shareholders will also benefit from the merger because they will receive a fair value for their stock in an all-cash transaction.

III. IMPACT OF THE MERGER TO NORTH ATTLEBORO'S CUSTOMERS

Q. Please describe the impact of the merger on North Attleboro's customers.

A. As described in the testimony of Peter H. Kelley and Ronald J. Endres, Southern Union has undertaken this merger primarily for strategic purposes, rather than to achieve large-scale cost synergies. As a result, the impact of the merger on customers will largely be in the nature of customer-service enhancements resulting from technology upgrades, increased distribution system reliability and similar benefits that would flow over time from participation in a larger organization. In addition, even though undertaken for strategic purposes, the merger with Southern Union is likely to produce some cost savings by virtue of the ability to coordinate and consolidate certain corporate functions as well as the opportunity to integrate the operations of Southern Union's other Northeast companies over the long term.

Q. In general terms, will the customers of North Attleboro experience gas-supply benefits as a result of the proposed merger?

A. Customers will experience two types of benefits relating to the gas-supply function. First, overall system reliability will increase as a result of the ability to plan, contract and dispatch gas supply resources on an integrated basis. Second, gas-cost savings will occur as a result of the more efficient utilization of peak-shaving facilities and peaking supply contracts, as well as the attainment of larger economies of scale and enhanced market knowledge in purchasing gas supply.

Q. How will the proposed merger allow North Attleboro to utilize its gas-supply resources more effectively?

A. North Attleboro has a very straightforward supply portfolio. North Attleboro is served exclusively by the Algonquin Gas Transmission Company ("Algonquin") pipeline system. North Attleboro is contractually entitled to a maximum daily quantity ("MDQ") of 2,031 Dekatherms delivered by the Algonquin pipeline. This amount includes both flowing supplies and deliveries from storage. North Attleboro has no LNG or propane-air peakshaving facilities. As a result of the merger, gas will be dispatched on a combined system basis, i.e., over the systems of ProvGas, Valley Resources, Inc. ("Valley"), Fall River Gas Company ("Fall River") and North Attleboro. Dispatching on a combined system basis is more efficient than dispatching on an individual system basis, because gas supplies can be moved across the system using displacement, and therefore, all companies have the ability to take advantage of lower-cost supplies that may be available today to only one of the companies. In the same manner, seasonal resources can be managed more efficiently. In addition, a larger resource portfolio will increase the opportunities for achieving economies of scale with respect to the purchase of gas commodity to serve the combined companies' system requirements.

Q. Will the ability to coordinate the gas-supply resources of the combined system produce gas-cost savings for North Attleboro customers?

A. At this point, it is difficult to estimate the savings that can and will be achieved as a result of the coordination of the gas-supply resources of the combined companies. Savings that are actually achieved will be a function of many factors. Restructuring of contracts, least-cost dispatch as a combined supply portfolio, strategies for more effective utilization of transportation and peaking resources are but a few of the opportunities for reducing overall gas supply costs. However, given my general knowledge of the supply resources of Fall River and Valley, I fully expect that there will be gas supply-related savings when each company's supply assets are planned, managed and dispatched in an integrated manner. In addition, the combined companies will share their market knowledge, which should create the opportunity to lower daily gas costs where, on a stand-alone basis, such market information would not normally be shared. Thus, I am confident that some level of gas-cost savings will result from the merger. Significantly, by virtue of the operation of the Cost of Gas Adjustment factor, any gas-cost reductions achieved will be flowed through to customers, and therefore, customers stand to benefit from the proposed merger in relation to gas supply costs.

Q. Please describe the impact of the merger on the base rates charged to North

Attleboro's customers.

A. The merger between Southern Union and ProvEnergy will have no immediate impact on the base rates charged to North Attleboro customers. As described in the testimony of Ronald J. Endres, North Attleboro's base rates will remain in effect after the merger. To the extent that merger-related savings materialize in the future, these savings will help to offset rate increases that would otherwise be required absent the merger.

IV. NORTH ATTLEBORO'S SERVICE QUALITY PROGRAM

Q. Is North Attleboro proposing a service quality program in conjunction with its petition for merger approval?

A. Yes. In the Eastern-Essex merger, the Department found that, although the Rate Plan proposed by Eastern did not constitute a performance-based ratemaking plan, quality of service is an essential factor in reviewing a merger, and therefore, it is necessary to set a standard by which service quality may be measured following the merger. Eastern-Essex Acquisition, D.T.E. 98-27, at 32. Specifically, the Department found that, in accordance with the no-net-harm standard, a service-quality plan is necessary to ensure that there is no degradation of service following the merger. Id. In preparing this filing, North Attleboro reviewed the standards approved by the Department in other cases.

Q. What is North Attleboro's proposal with regard to tracking service quality following the merger?

A. North Attleboro does not currently track its service quality in accordance with the metrics approved in other cases. Therefore, North Attleboro will need to alter some of its processes for gathering data, modify the type of data it collects and, in certain instances, develop new systems and procedures for gathering additional data. Accordingly, North Attleboro proposes that time be allowed to accomplish these changes and to gather the necessary data so that it will be in a position to file a full service quality plan for the Department's review and approval 18 months following the close of the merger. This type of process was approved in the Essex merger case and is both a necessary and appropriate approach for developing a service quality plan in this case. Eastern-Essex Acquisition, D.T.E. 98-27.

Q. Can you provide any specifics with regard to a service quality plan following the merger?

A. North Attleboro proposes to track its performance in the areas of: (1) emergency, billing and service telephone call answering time; (2) response to emergency calls; (3) lost-time accidents; (4) service appointments met on the day scheduled; and (5) actual meter reads. For those service quality metrics where North Attleboro does not have adequate historical data, i.e., service appointments met as scheduled, actual meter reads, and handling time of emergency, billing and service telephone calls, North Attleboro proposes a transition period of 18 months to implement the necessary systems and processes to track this data more fully and appropriately. Following this transition period, North Attleboro will submit such data to the Department for its review, consistent with the Department's decision in D.T.E. 98-27 regarding the implementation of a service quality measurement program for Essex. For those metrics for which North Attleboro has adequate historical data, i.e., response to emergency calls and incidence rate for lost time accidents, North Attleboro proposes to continue to track its data in those areas for the same 18 month period and submit that data to the Department simultaneously with its data for the other referenced measures so as to demonstrate that service quality will not be adversely affected by the merger. Indeed, North Attleboro believes that, as a direct result of the merger, the Department will see an overall improvement in the level of service quality and service offerings being delivered to its customers over the long term.

Q. Would you please summarize your testimony?

A. After many years of success, ProvEnergy determined that the best means for continued and expanded growth in the gas industry was through a merger with a larger organization. Following recent utility mergers in New England, ProvEnergy diligently pursued its own business combination and, to that end, concluded that a merger with Southern Union was in the best interests of its shareholders, customers and employees. The merger will allow North Attleboro's customers to realize benefits that are attainable only in the context of a larger organization, and therefore these benefits would not be possible but for the merger. Further, the merger will not adversely affect the level of service quality North Attleboro's customers have experienced over the years. For these reasons, I believe the merger is in the best interests of our shareholders, customers and employees and is in the public interest.

Q. Does this conclude your testimony?

A. Yes, it does.